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DEPARTMENT OF VETERANS AFFAIRS
BEFORE THE
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS
COMMITTEE ON VETERANS' AFFAIRS
U.S. HOUSE OF REPRESENTATIVES**

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Introduction

Good afternoon, Chairman Bergman, Ranking Member Kuster, and Members of the Subcommittee. Thank you for the opportunity to discuss the actions the Department of Veterans Affairs (VA) is taking to improve financial management. As the VA Deputy Assistant Secretary for Finance, I am responsible to the Acting Chief Financial Officer (CFO) for Department-wide financial management activities.

Over the last several years, through our improper payment reviews, insights from the Office of Inspector General (OIG) reports, and detailed deep dives into root causes of audit findings, it has become clear that the foundation of our financial management practices is failing us. We have based our day-to-day acquisition and financial management processes on a fragile network of systems that routinely require our workforce in the field to rely on manual double entry processes, complex work-arounds, manual reconciliations, and processes that cannot keep pace with current financial management best practices set forth by guidance from the Office of Management and Budget (OMB) and the Department of the Treasury. Efforts to remediate these complex issues within our current foundation, coupled with a workforce that has not been trained in best practices, has limited our success. VA must focus on modernizing our financial management and acquisition systems, strengthen our internal controls, adopt best practices, and invest in a trained workforce.

Reforming VA at the Root Cause: Financial Management Business Transformation

Recognizing these challenges, with support from Secretary Shulkin, Interim Deputy Secretary Blackburn, and my boss, Ed Murray, the Acting CFO, we have recruited talented financial management professionals, seasoned project managers, experienced data architects, and a strong leadership team to lead initiatives to modernize our systems, adopt best practices, and train our workforce. Our Financial Management Business Transformation (FMBT) initiative is ongoing now and with continued management support and openness to change will take a focused effort over the next 5-8 years to be successful. We are committed to addressing audit findings in our current environment as much as possible, but because many of the findings are a result of our aged systems, our main focus will be on the transformation.

We have made progress on ensuring FMBT is well managed and headed for success. During fiscal year (FY) 2016, following guidance from OMB to migrate to a Federal Shared Service Provider, VA explored two Federal shared service providers as directed by the Unified Shared Service Management Office and conducted in-depth evaluation sessions. I utilized subject matter experts from across the agency to determine which provider was the best fit for VA. After a detailed and thorough process, VA selected the United States Department of Agriculture (USDA). In collaboration with USDA, we are in the engagement phase of the effort, performing business process engineering, developing conversion strategies, and evaluating technical data interface alternatives. It is imperative that the FMBT initiative take the necessary steps to ensure that VA is fully prepared to replace our legacy systems with an integrated, modern system and reap the functional and technical benefits.

Independent Auditor's Report on VA's Financial Statements

OIG, utilizing an independent auditor, issued VA's 18th consecutive unmodified ("clean") audit opinion in FY 2016 reporting six material weaknesses:

1. **Office of Information Technology (OIT) security controls** – The material weakness in OIT Information Technology security controls is a long-standing

- issue and the Chief Information Officer has taken aggressive action to remediate these findings. In 2018, OIT fully expects to remedy this finding.
2. **Veterans Benefits Administration's (VBA) education benefits accrued liability** – This new finding relates to the inaccurate interpretations of accounting standards for post-employment benefits. In addition, several education programs were not included in the FY 2016 estimates. Currently VBA is building valid models that meet actuarial standards for all required education programs. Difficulties in hiring certified actuaries and initiating necessary experience studies will most likely delay resolution of this finding until FY 2018.
 3. **VBA control environment surrounding the compensation, pension, and burial actuarial estimates** – This new finding resulted from the unexpected retirement of VA's Chief Actuary. The lack of a qualified actuary managing and taking full responsibility for VA's compensation, pension, and burial actuarial model resulted in a lack of segregation of duties and outdated assumptions used in the model. Difficulties in hiring certified actuaries and initiating necessary updates to critical assumptions will most likely delay resolution of this finding until FY 2018.
 4. **Veterans Health Administration (VHA) Community Care obligations, reconciliations, and accrued expenses** – This long-standing issue is directly related to the lack of modern integrated financial and acquisition systems. While efforts have been made to strengthen manual workarounds and improve reconciliations, these processes are short-term solutions and are not sustainable for the long-term. Until the new FMBT system is implemented, the burden to resolve these findings relies on the workforce rather than a modern system. Many of the issues identified here also contributed to the improper payment rates and findings in the Improper Payments Elimination & Recovery Act (IPERA) review for Community Care. This finding will remain until we move to a new system.
 5. **Financial reporting** – This long-standing issue is a result of our antiquated financial system. Due to our legacy financial system's limited functionality,

VA has to exercise complex analysis and inefficient work-arounds to fully meet Treasury and OMB reporting requirements. This finding will remain until we move to a new system.

6. **CFO organizational structure for VA and VHA** – VA's CFO community has worked to improve their communication and cooperation through a series of joint initiatives. The FY 2017 audit is ongoing, and we expect to receive OIG's feedback on our efforts.

Many of the findings are due to long-standing problems inherent in the legacy financial management system. VA will continue to work to address audit findings that will improve our position in the short-term. We will not see the large-scale improvements needed to remediate VA's financial management challenges and audit findings until the legacy Financial Management System is replaced.

Commitment to Training VA's Workforce

In the spring of 2016, I instituted the Financial Management Training Initiative (FMTI). The overall objective of FMTI is to educate financial management professionals across the Department in order to help remediate current audit findings and avoid repeat or new findings during the annual financial statement audit. My FMTI strategy is to centralize and standardize a financial management training curriculum throughout the Department. The initiative will reinforce accurate daily financial transactional processes; increase employee levels of knowledge, skill, and proficiency; remediate audit findings and deficiencies with targeted sessions related to findings and recommendations; and support change management for the FMBT effort—our new financial management system. In pursuit of this goal, my office held a virtual, 3-day, web-based event in August 2016 and an in-person, 3-day event in Nashville, Tennessee, in January 2017. In total, 1,560 VA employees participated in a total of 71 separate classes. Many of the classes were focused directly on remediating audit findings, including: capitalization of assets; reconciliations; undelivered orders; interagency agreements and intragovernmental reconciliation; accounting for community care; essentials of Federal

appropriations and fiscal law; the Anti-Deficiency Act; major, minor, and non-recurring maintenance accounting; future of VA Form 1358; helping VA fight fraud; improper payments; and internal controls. There are two more events planned over the next 9 months—another virtual event in August 2017 and another in-person event in late January 2018.

Commitment to Accurate Reporting, Remediating, and Ensuring Accountability for VA Resources

Whereas modernizing VA's financial management system is a desperately needed, multi-year effort that will truly transform VA's ability to address root causes of audit findings, VA is also leading initiatives in areas that can affect change now.

Over the past three years, VA has worked to increase senior leadership collaboration and awareness of improper payment challenges. We also established a new oversight office, the Improper Payments Remediation and Oversight Office (IPRO), focused on driving identification and remediation of improper payments. We recruited staff with expertise in IPERA compliance, internal control assessment, systemic issue identification, and corrective action development. This office will also lead Secretary Shulkin's new "Seek to Prevent Fraud, Waste, and Abuse (STOP)" effort. Recent accomplishments include:

- Ensuring consistent application of the definition of improper payments across the Department in the area of acquisitions. VA issued acquisition guidance mandating testing procedures and providing instructions on what constitutes a proper payment. This guidance is iterative and is updated to address complex acquisition issues identified during testing;
- Revision of IPERA policy to clearly define roles and responsibilities, in addition to processes and procedures; and
- Review of improper payment risk assessments, testing plans, and corrective action plans for each program to ensure a consistent enterprise-wide approach and compliance with policy.

Although these efforts have not yet resulted in an overall reduction of improper payments, VA did report a decrease in improper payments in more than half of the 14 programs reporting in FY 2016. VA cannot fully address systemic issues without accurate identification of errors and root causes and acknowledges that this means its reported improper payment rate will continue to rise until such time as efforts underway in program's such as VA's Community Care begin to garner results.

In FY 2017, VA is leading efforts to analyze improper payments to determine the percentage that are accurate, but must still be reported as improper due to failure to comply with policy versus those that represent a true loss to the Government. This will aid leadership in targeting resources to areas that will result in cost-benefits to VA. Further, as part of VA's STOP fraud, waste, and abuse initiative, VA will establish the baseline of existing fraud, waste, and abuse activities, to include identifying savings; determine areas most at risk of fraud, waste, and abuse; explore partnership opportunities with the private sector and other federal agencies to maximize efficiencies; and leverage the Financial Services Center Data Analytics capabilities to improve VA's fraud, waste, and abuse prevention efforts. These capabilities are enabled by a robust, enterprise-level analytics technology platform leveraging commercial-off-the-shelf and advanced open source programming/analytic tools; a team of data scientists, statisticians, data engineers, and data/program analysts; and an extended organizational ecosystem that includes internal and external partners in fraud, waste, and abuse analytics and management. Organizations included in the analytic ecosystem include the top ranked McCombs School of Business, University of Texas; Centers for Medicare and Medicaid Services; Interagency Fraud and Risk Data Mining Workgroup; VA's Office of Compliance and Business Integrity; VA's Office of Internal Controls; IPRO; and others. This important initiative will reap great rewards for VA.

Debt collection is also an essential part of strong financial management where VA is making improvements. VA balances Veteran debt collection with a strong sense of compassion, as well as compliance with Federal debt collection statutes and policy. VA works with Veterans to resolve their debt through extended payment plans, benefit

offset, waivers, dispute resolution, and even refunds, if Veterans are found to be in hardship. Federal statutes also require VA to send non-tax debt to Treasury for collection. In December 2016, VA began transferring delinquent debt for non-service connected medical care co-payments to the Treasury Cross Servicing program for collection. As of April 30, over 800 thousand delinquent debts totaling about \$71 million were referred for recovery. Veterans receive at least three debt notices before Treasury takes offsets from tax refunds and/or Federal salaries.

The Department's comprehensive efforts to improve financial management will assist in improving activities to identify fraud, waste, and abuse, reducing improper payments, and strengthening VA's financial statements. However, VA cannot emphasize enough how important the FMBT effort is to strengthen VA's overall financial management position. This includes VA's ability to meet Federal regulations and mandates and remediate VA's material weaknesses for the financial statements.

Path Forward

Even with these efforts, VA recognizes it has many challenges to overcome, while at the same time providing Veterans the benefits and services they have earned and deserve. VA acknowledges its current challenges and audit findings in financial management that reflect a need for improved financial stewardship. We believe that the initiatives we are working on will improve VA's financial management and better serve our Veterans.

Thank you for the opportunity to appear before you today and for your continued support of Veterans. I look forward to your questions.